



**Auditor of State
David A. Vaudt**

“Budgeting — Iowa’s Future”

April 2009

State of Iowa

FY10 General Fund Budget

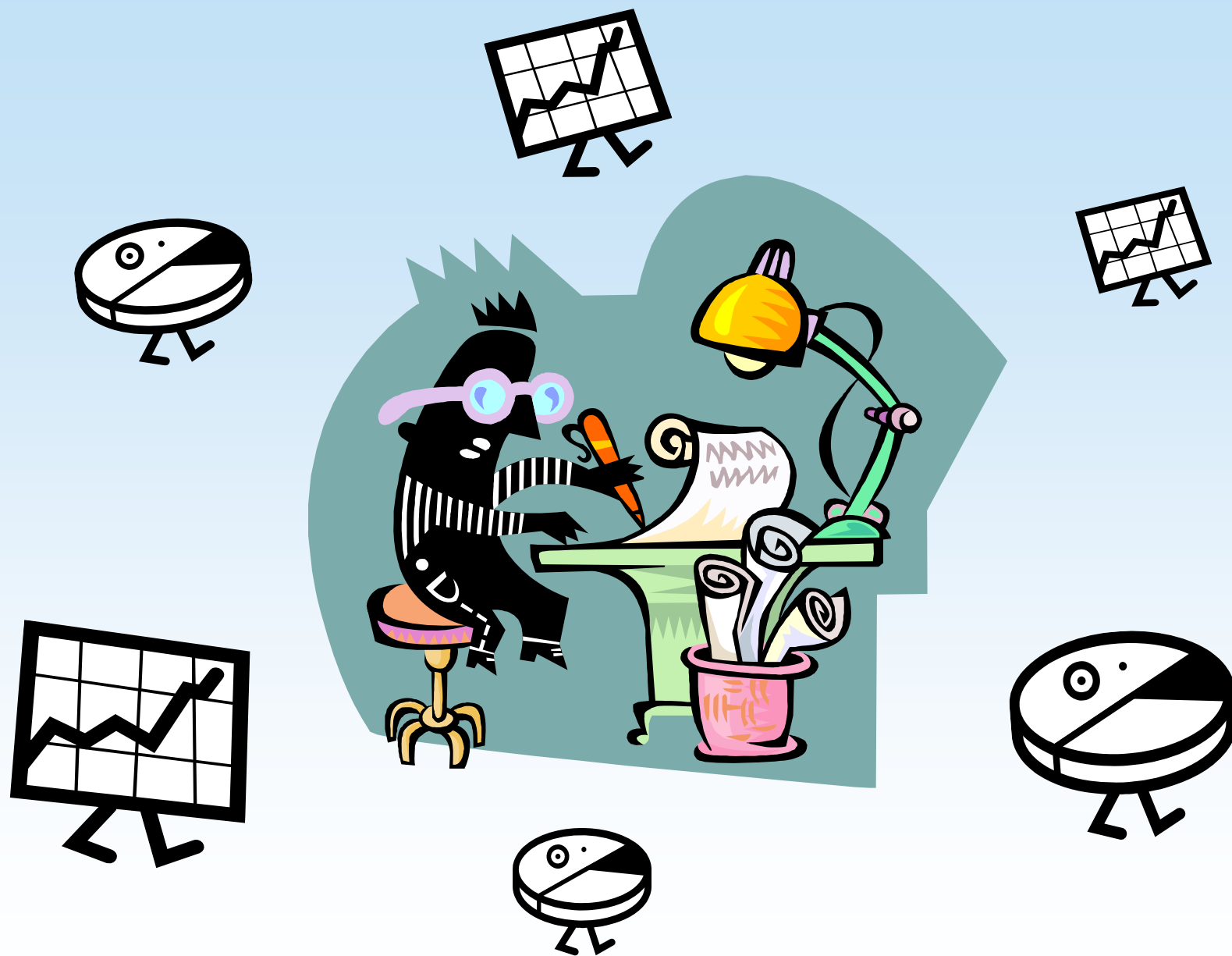
■ General Fund Budget

- Brief historical perspective
- FY08 and FY09 budgets

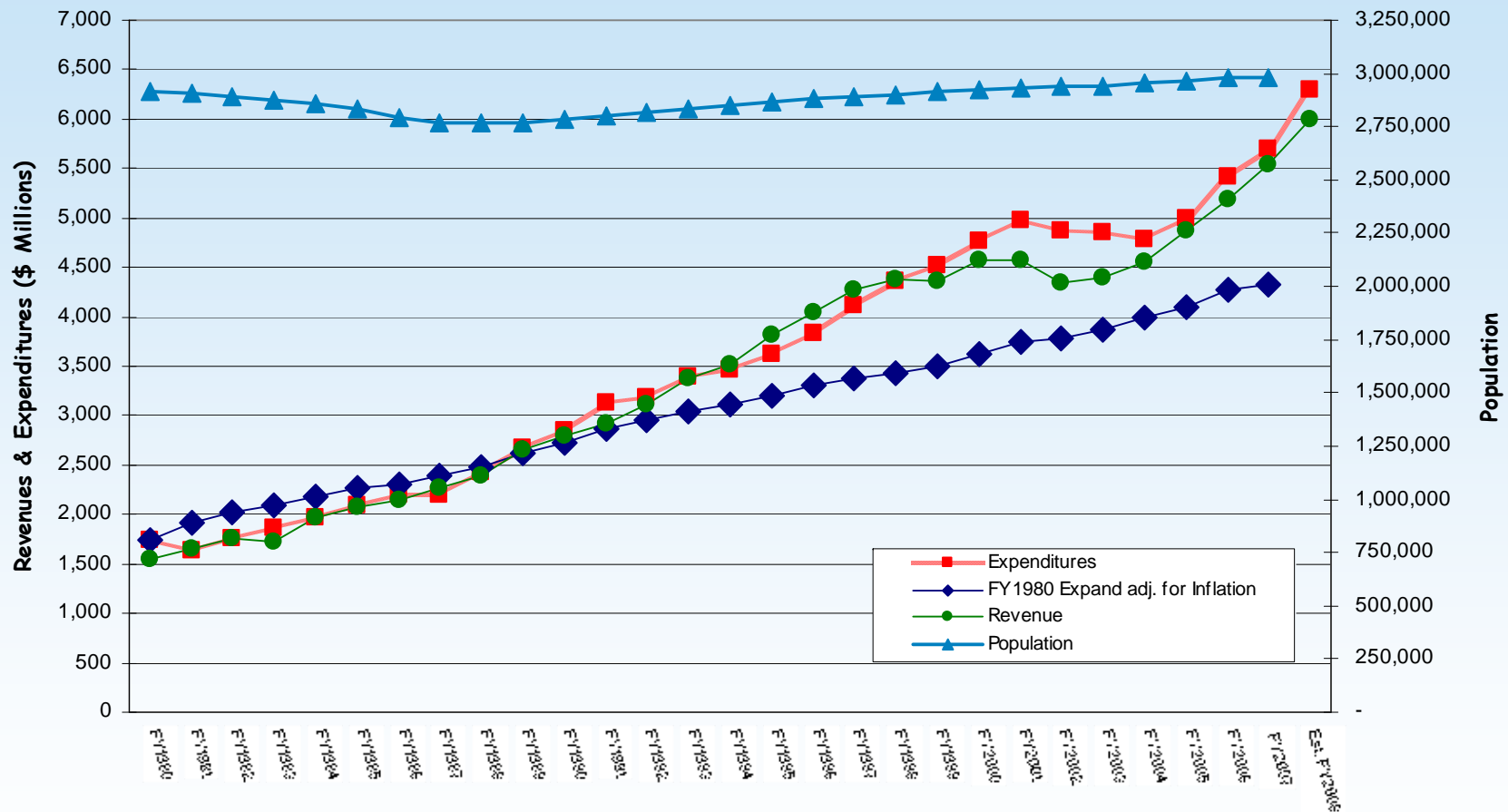
■ Governor's FY10 Proposed Budget

- All the talk about the recession and 2008 disasters – what are the real impacts?
- The “story” vs. “reality”
 - FY09
 - FY10
- Looking to FY11 – what does the picture look like?
- Other concerns
- The bonding proposal

■ Questions



State of Iowa - General Fund Budget Historical Perspective - Population, Expenditures*, and Revenues



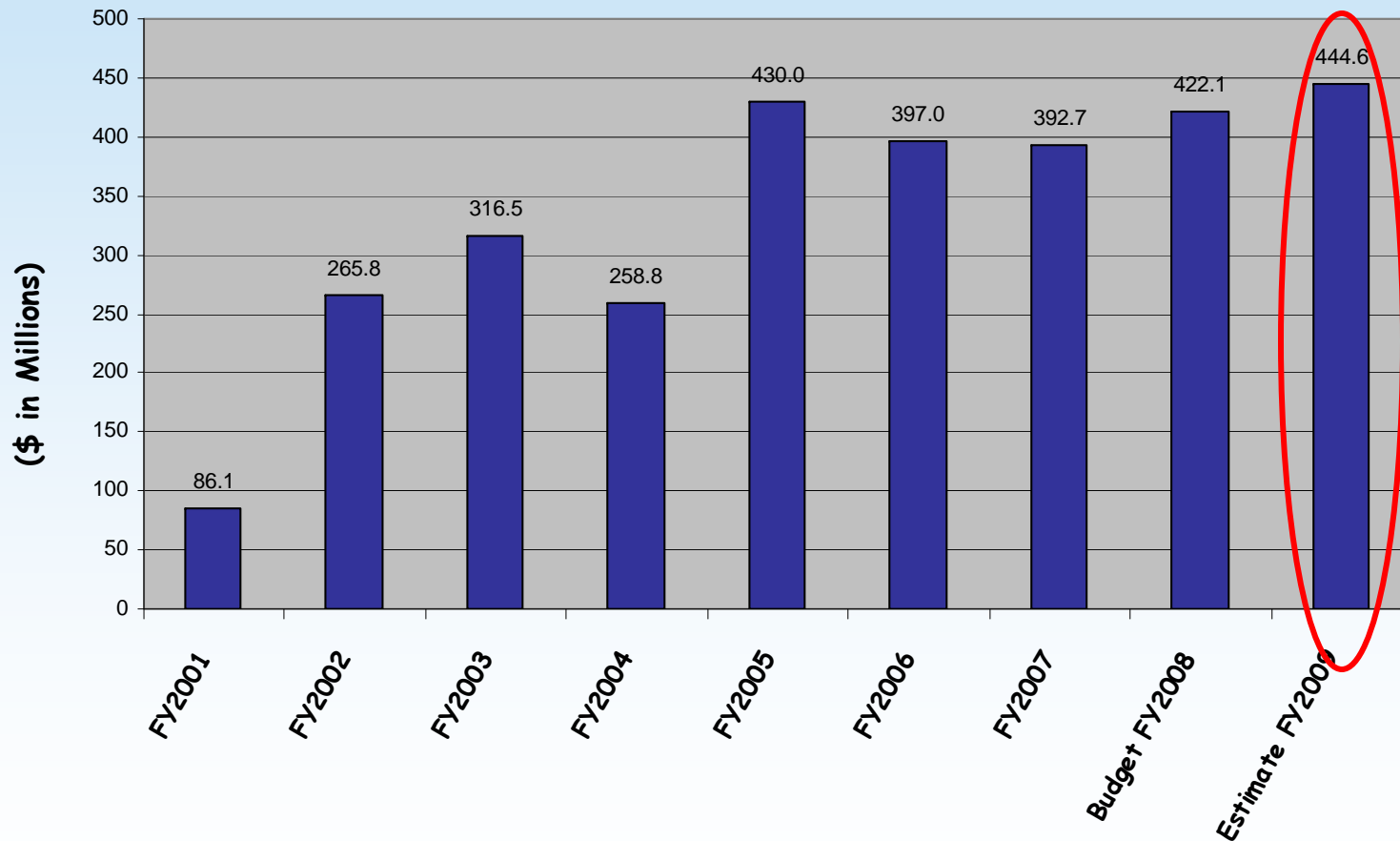
*Adjusted for all resources

State of Iowa - General Fund Budget Historical Perspective - Lack of Clarity (\$ in Millions)

	<u>Reported Expenditures</u>	<u>Expenditures Shifted</u>		<u>"True Total Expenditures"</u>
		<u>Amount</u>	<u>%</u>	
FY00	\$ 4,763.6	-	-	\$ 4,763.6
FY01	\$ 4,886.9	\$ 86.1	1.8	\$ 4,973.0
FY02	\$ 4,607.5	\$ 265.8	5.8	\$ 4,873.3
FY03	\$ 4,534.4	\$ 316.5	7.0	\$ 4,850.9
FY04	\$ 4,517.4	\$ 258.8	5.7	\$ 4,776.2
FY05	\$ 4,557.5 (A)	\$ 430.0	9.4	\$ 4,987.5
FY06	\$ 5,027.6	\$ 397.0	7.9	\$ 5,424.6
FY07	\$ 5,347.1	\$ 392.7	7.3	\$ 5,739.8
FY08	<u>\$ 5,898.4</u>	<u>\$ 422.1</u>	<u>7.2</u>	<u>\$ 6,320.5</u>
Estimate FY09	<u>\$ 6,108.5</u>	<u>\$ 444.6</u>	<u>7.3</u>	<u>\$ 6,553.1</u>

(A) Excludes \$45.6 million Cash Reserve Fund repayment.

State of Iowa - General Fund Budget Historical Perspective - Expenditure Shifts (\$ in Millions)



Record setting expenditure shifts in FY09!

State of Iowa - General Fund Budget Expenditure Shifts - Iowa's "Charge Cards" Maxed Out

Iowa's "charge cards" (except for "Rainy Day" funds) are essentially "maxed out."

- Senior Living Trust Fund
- Tobacco Related Funds:
 - Endowment for Iowa's Health Account
 - Restricted Capital Fund
 - Healthy Iowans Tobacco Trust Fund
 - Endowment for Iowa's Health Restricted Capitals Fund
- Property Tax Credit Fund

However, the expenditures are ongoing.

State of Iowa - General Fund Budget
“Charge Card” Approach Contributes to Lack of Clarity
(\$ in Millions)

	<u>Reported</u> <u>Expenditures</u>	<u>“True Total</u> <u>Expenditures”</u>
FY08 vs. FY00 Increase:		
Dollars	<u>\$ 1,134.8</u>	<u>\$ 1,556.9</u>
Percentage	<u>23.8%</u>	<u>32.7%</u>

State of Iowa - General Fund Budget

The Senior Living Trust Fund Story

(\$ in Millions)

Taxpayers are frequently informed about the status of the \$300 million required to be repaid from the nearly \$600 million diverted from the Senior Living Trust Fund.

Cumulative repayments currently projected
through FY09

\$251.7

Key question – What will the balance be at the end of FY09?

Projected balance at end of FY09

\$ 26.8

Projected balance as a % of cumulative repayments

10.6%

State of Iowa - General Fund Budget

Revenue Growth vs. Expenditure Growth

(\$ in Millions)

	Actual <u>FY07</u>	<u>Budget</u>		<u>2-year</u>
		<u>FY08</u>	<u>FY09</u>	
Revenues	<u>\$5,722.9</u>	<u>\$5,989.8</u>	<u>\$6,281.5</u>	
Revenue growth	<u>\$266.9</u>	<u>\$291.7</u>		<u>\$558.6</u>
	<u>4.7%</u>	<u>4.9%</u>		<u>9.8%</u>
True total expenditures	<u>\$5,739.8</u>	<u>\$6,291.0</u>	<u>\$6,588.8</u>	
Expenditure growth	<u>\$551.2</u>	<u>\$297.8</u>		<u>\$849.0</u>
	<u>9.6%</u>	<u>4.7%</u>		<u>14.8%</u>
2-year expenditure growth as % of revenue growth				<u>152.0%</u>


*Adjusted for all resources

State of Iowa - General Fund Budget

Tax & Fee Increases – Impact on Revenue Growth

(\$ in Millions)

Tax and fee increases account for 62.6% of the \$558.6 million revenue growth in the FY08 and FY09 two-year period.

	<u>Total Revenues</u>	<u>Newly Enacted Revenues</u>	<u>% Newly Enacted Revenues</u>
FY08 growth	\$266.9	\$181.9	<u>68.2%</u>
FY09 growth	<u>291.7</u>	<u>167.7</u>	<u>57.5%</u>
Total revenue growth	558.6	349.6	<u><u>62.6%</u></u>
Less one-time revenues	<u>(28.3)</u>	<u>(28.3)</u>	
Ongoing revenue growth	<u>\$530.3</u>	<u>\$321.3</u>	
Two-year % increase (A)	<u>9.3%</u>	<u>5.6%</u>	
			<u>3.7%</u>

(A) Based upon FY07 revenues (\$5,722.9)

State of Iowa - General Fund Budget

Spending Gap – Generated by Expenditure Shifts

(\$ in Millions)

	Budget	
	<u>FY08</u>	<u>FY09</u>
Revenues	<u>\$5,989.8</u>	<u>\$6,281.5</u>
Revenues available (A)	5,925.2	6,218.1
True total expenditures*	<u>6,291.0</u>	<u>6,588.8</u>
Spending gap	<u>\$ (365.8)</u>	<u>\$(370.7)</u>

(A) Reflects 99% expenditure limitation (95% for new revenues)

*Adjusted for all resources

State of Iowa - General Fund Budget

Wasn't This a Time to be Fiscally Conservative?

Here's what the experts were saying in March 2008 during development of the FY09 budget:

- If the current downturn follows the path of previous recessions, 35 to 40 states could face budget cuts in 2009. That's largely because of a lag before economic effects show up in states' revenues. (National Governors' Association, Executive Director Raymond Scheppach, March 2008)
- I'm beginning to think this (downturn) is going to be long and deep. (Center on Budget and Policy Priorities, Deputy Director Iris J. Lav, March 2008)

State of Iowa FY09 and FY10 REC Revenue Estimates (\$ in Millions)

What happened to Iowa's General Fund FY09 and FY10 revenues as impacted by the recession and 2008 disasters?

REC Estimates				
FY09			FY10	
12/07	4/08	12/08	12/08	
\$6,140	\$6,189	\$6,052	\$6,026	
<div style="display: flex; justify-content: space-around; align-items: center;"> <div style="text-align: center;"> ↓ \$49 </div> <div style="text-align: center;"> ↓ (\$137) </div> </div>			↓ (\$26)	
<div style="display: flex; justify-content: space-around; align-items: center;"> <div style="text-align: center;"> ↑ (\$88) </div> <div style="text-align: center;"> ↑ (2.2%) </div> </div>			↑ (0.4%)	
			<u>Total</u> <u>(\$163)</u>	

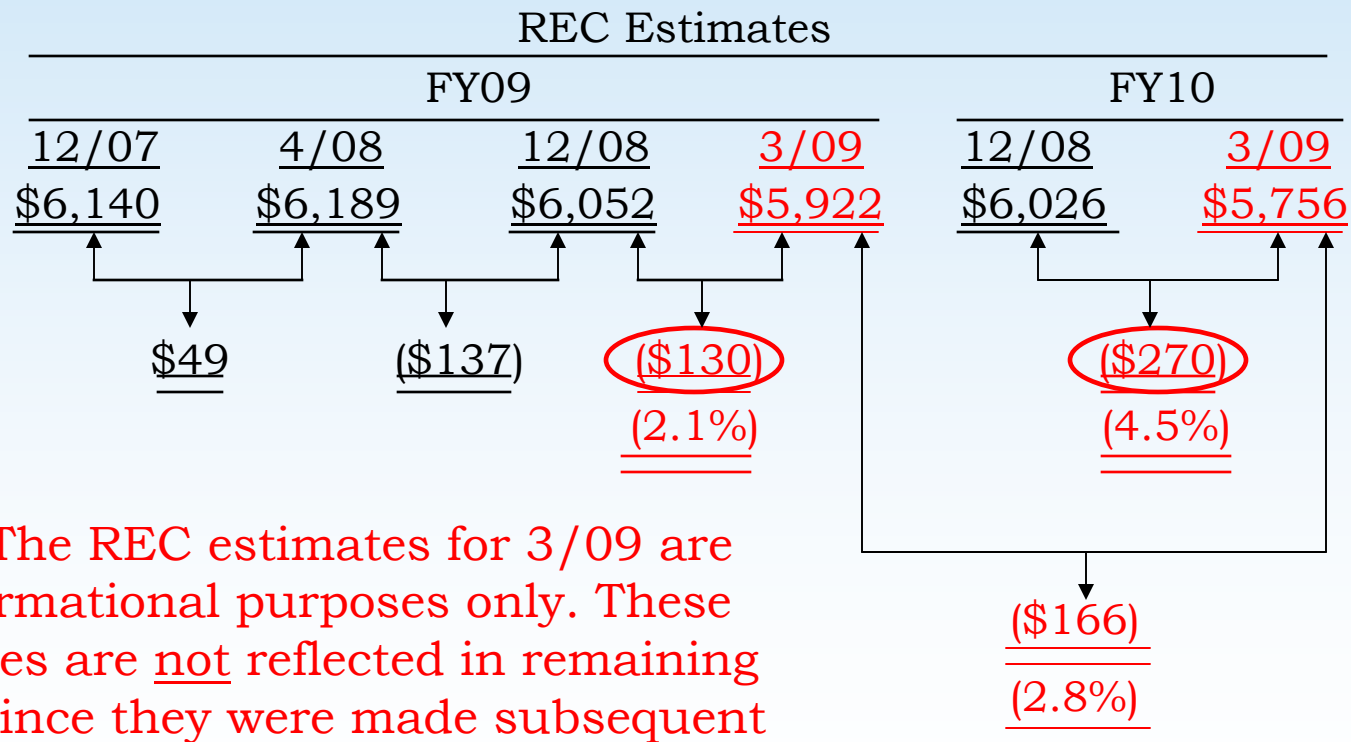
FY09 – of the \$137 million revenue decline, more than 1/3 (\$49 million) was “self-inflicted” by notwithstanding the law and utilizing the April 2008 estimate.

FY10 – the decline from the revised FY09 estimate is only \$26 million, less than 1/2 of 1%.

REC= Revenue Estimating Conference

State of Iowa
March 2009 REC Revenue Estimates
(\$ in Millions)

What happened to Iowa's General Fund revenues as impacted by the recession and 2008 disasters based on the REC's meeting on March 20, 2009?



Note – The REC estimates for 3/09 are for informational purposes only. These estimates are not reflected in remaining slides since they were made subsequent to the Governor’s proposed budget.

State of Iowa
FY09 & FY10 Cost Impacts
(\$ in Millions)

What are the General Fund recession and disaster related costs estimated by the Governor?

	<u>FY09</u>	<u>FY10</u>
Medicaid	\$47	\$45
Flood recovery	<u>21</u>	<u>39</u>
	<u>\$68</u>	<u>\$84</u>

In addition, \$56 million has been appropriated from the Economic Emergency Fund for the 2008 disasters, which reduces General Fund spending.

State of Iowa
FY09 & FY10 Total Revenue & Cost Impacts
(\$ in Millions)

What are the combined recession and disaster related impacts to General Fund revenue and spending?

	<u>FY09</u>	<u>FY10</u>	<u>Total</u>
Revenue reductions	\$137	\$ 26	\$163
Spending increases	<u>68</u>	<u>84</u>	<u>152</u>
	<u>\$205</u>	<u>\$110</u>	<u>\$315</u>

Let me be clear—the recession and 2008 disasters are not the cause of Iowa’s projected FY10 shortfall. A \$110 million problem does not create a \$500 to \$700 spending gap. And, the 3/09 REC estimates simply magnify the challenges.

State of Iowa FY09 Spending Cuts (\$ in Millions)

“The Story”—This is what taxpayers were told.

“I will sign an Executive Order to implement an across-the-board cut of 1.5% to the general fund. . . These actions are in addition to \$77 million in reduced spending that I announced on December 9. Together, these cuts represent nearly \$180 million. This will have an impact on programs that the State provides.”

(Governor Culver, December 18, 2008, email to state employees.)

“The Reality”—This is what the Governor proposed.

1.5% across-the-board cut	\$ (89)
Selected deappropriations	<u>(31)</u>
	<u><u>\$(120)</u></u>

The Governor’s proposed solutions reduce spending \$120 million—not the \$180 million originally communicated. At the same time, the Governor proposed \$84 million of additional spending through supplemental appropriations and adjustments to standings appropriations—only \$36 million net spending reduction.

State of Iowa
FY09 “Spending Cuts”
(\$ in Millions)

“The Reality”—This is what the Governor proposed.

Uses Iowa’s “charge cards”:

Rebuild Iowa Infrastructure Fund	\$ 55	
Underground Storage Tank Fund	6	
Innovation Funds	<u>5</u>	<u>\$ 66</u>

The Governor’s proposed solution “scoops” an additional \$66 million from other funds.

State of Iowa
FY09 “Spending Cuts”
(\$ in Millions)

“The Reality”—This is what the Governor proposed.

Exceeds 99% expenditure limitation (A) \$ 39

The Governor’s proposed solution leaves the General Fund with a razor-thin \$23 million safety net—just 0.35% of projected revenues.

My question was, what happens if the REC further reduces FY09 projected revenues? Well, it did happen—a \$130 million reduction in 3/09.

(A) 99% expenditure limitation does **not** apply to supplemental appropriations.

State of Iowa FY10 Spending Cuts (\$ in Millions)

“The Story”—This is what taxpayers were told.

“Culver proposed a 6.5 percent budget cut for most of the state’s departments, which he says will generate \$400 million in savings. In fact, Culver said, 207 of the 253 line items in his budget are getting cut by 6.5 percent.

Additionally, the Governor said he plans to transfer \$200 million from the state’s reserve, or rainy day fund, into the general fund for the 2010 budget, claiming it has figuratively rained on the state’s budget.

‘This is from our rainy day fund, and it has rained,’ he said.”

(Business Record Daily, January 28, 2009)

“The Reality”—This what the Governor proposed.

	<u>FY09</u>	<u>FY10</u>	<u>Decrease</u>	
			<u>Amount</u>	<u>%</u>
General Fund true total expenditures	<u>\$6,553</u>	<u>\$6,510</u>	<u>(\$43)</u>	<u>(0.7%)</u>

General Fund true total expenditures decrease only \$43 million from the revised FY09 spending estimate—that’s less than 1%. This is a far cry from the \$400 million in savings the Governor claims.

State of Iowa
FY10 “Spending Cuts”
(\$ in Millions)

“The Reality”—This is what the Governor proposed.

<u>Uses Iowa’s “charge cards”</u>	<u>\$237</u>
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Underfunds estimated costs:

Medicaid	\$60	
State Appeal Board	8	
FY09 salary increases (A)	<u>21</u>	<u>\$ 89</u>

The Governor’s proposed solution also underfunds estimated program costs (funds spending at less than projected costs).

(A) Impact to FY10 from salary increases that occur during FY09 (salary annualization).

State of Iowa
FY10 “Spending Cuts”
(\$ in Millions)

“The Reality”—This is what the Governor proposed.

Unspecified cost savings

\$ 20

Total appropriations are reduced through unspecified cost savings from “reorganization, efficiency, etc.”

If the \$109 million underfunded costs and unspecified cost savings were appropriated, total appropriations would exceed the 99% expenditure limitation by \$108 million (1.7%).

State of Iowa

FY10 - Covering the Projected Shortfall

(\$ in Millions)

Acceptable budgeting practices:

Revenue enhancements:

Tax credit caps	\$ 28	
Tax credit eliminated	<u>3</u>	\$ 31

Spending reductions 43

One-time transfers - Cash Reserve Fund 110

\$ 184 36.1%

Poor budgeting practices:

One-time transfers:

Cash Reserve Fund	\$ 90	
Other funds	<u>17</u>	\$ 107

Expenditure shifts (A):

Rebuild Iowa Infrastructure Fund	\$ 94	
Environment First Fund	9	
Senior Living Trust Fund	<u>27</u>	130

Underfunded costs 89

\$ 326 63.9%

\$ 510

The Governor's proposed solutions to address Iowa's FY10 spending gap simply defer the majority of the problems to FY11.

(A) Excludes IowaCare Account because expenditures shifted equal revenues shifted—no net impact.

State of Iowa
The FY11 Outlook
(\$ in Millions)

FY10 revenues (A)		\$6,137
Less FY11 impacts of enacted revenue reductions and tax credit increases		(50)
FY11 <u>ongoing</u> revenues		<u>\$6,087</u>
FY11 <u>ongoing</u> revenues available (B)		\$6,026
FY10 true total expenditures	\$6,510	
FY11 Preschool & K-12 2% allowable growth	<u>63</u>	<u>6,573</u>
FY11 spending gap before revenue and other spending changes		<u>\$ (547)</u>
FY11 revenue growth needed just to fill the existing spending gap		<u>9.1%</u>

(A) Based upon 12/08 REC estimate; assumes renewal of IowaCare waiver for Medicaid

(B) Reflects 99% expenditure limitation

State of Iowa Other Concerns (\$ in Millions)

- To the extent Federal stimulus monies are received and used to increase FY10 ongoing General Fund spending, the FY11 spending gap will grow—these monies will be one-time resources.
- Property tax credit funding is \$50 million less than prior years—simply transfers problem to local governments.
- Spends maximum available under 99% expenditure limitation—how will negotiated salary increases, if any, be addressed (\$17 million impact for each 1% increase)?
- School allowable growth funding reduced from 4% to 2% (\$59 million impact)—what's the benefit of approving a year in advance?
- Temporary funding for Medicaid under a special waiver (IowaCare) expires in FY10—\$80 million of General Fund revenue at risk if not renewed.
- Rainy Day funds are tapped for \$256 million leaving a balance of only \$365 million—if economic downturn continues, as many predict, into FY11, Iowa's options are severely restricted.

State of Iowa

The Bonding Proposal

(\$ in Millions)

Rebuild Iowa Infrastructure Fund (RIIF):

Resources available:	<u>FY09</u>	<u>FY10</u>	<u>Total</u>
Gaming revenues	\$ 202	\$ 205	
Interest	28	23	
Tobacco MSA payments	18	18	
Riverboat license fees	8	-	
Other, net	<u>5</u>	<u>(3)</u>	
	<u>\$ 261</u>	<u>\$ 243</u>	<u>\$ 504</u>
<u>Non-RIIF uses:</u>			
Transfers to General Fund	\$ (55)	\$ -	
Expenditure shifts	<u>(101)</u>	<u>(94)</u>	
	<u>\$(156)</u>	<u>\$ (94)</u>	<u>\$(250)</u>

Using the RIIF fund for infrastructure (vertical or horizontal) would provide in just a 3-year period the \$750 million of bonding proposed by the Governor that requires a 20-year payback.

To the extent Federal stimulus monies are received for infrastructure (currently estimated at \$395 million), how much infrastructure spending is Iowa capable of undertaking in the next 12 to 18 months?

State of Iowa - General Fund Budget

The Road to Meaningful, Sustainable Budgets

Recommendation 1:

Present cost of General Fund services with clarity in the budget document by including non-General Fund resources being used to pay for General Fund services so meaningful year-to-year comparisons can be made.

Recommendation 2:

Present the spending gap created by the budget and future plans for reduction/elimination in the budget document. Iowa must bring ongoing revenues and ongoing spending back in balance.

Recommendation 3:

Within the budget document present, **at a minimum**, the budget projection for the immediately following fiscal year—i.e., in FY10 budget document also present FY11 projection.

State of Iowa - General Fund Budget

Yes, challenges exist —

These are financial facts that quickly become history
– **we cannot change history, but we can impact the future.**

Keys to solving challenges —

Recognize the problem and implement the necessary changes—remember, **challenges met can provide real opportunities to improve.**

State of Iowa What Can You Do?

- Stay informed
- Communicate with the Governor and your Legislators:

Governor	515-281-5211
House	515-281-3221
Senate	515-281-3371

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